



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS
AUDIT EXAMINATION OF THE
LEE COUNTY
SHERIFF'S SETTLEMENT - 1999 TAXES AND
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES**

July 20, 2000

**EDWARD B. HATCHETT, JR.
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EXECUTIVE SUMMARY

LEE COUNTY JAMES H. PELFREY, SHERIFF SHERIFF'S SETTLEMENT - 1999 TAXES AND SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

Our audit of the Lee County 1999 Taxes and 1999 Unmined Coal Taxes resulted in the following comments and recommendations:

The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits

The Sheriff Should Have Published The Sheriff's Annual Settlement With The County

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Honorable James H. Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

Independent Auditor's Report

We have audited the Lee County Sheriff's Settlement - 1999 Taxes and the Sheriff's Settlement - 1999 Unmined Coal Taxes as of July 20, 2000. These tax settlements are the responsibility of the Lee County Sheriff. Our responsibility is to express an opinion on the financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the Lee County Sheriff's taxes charged, credited, and paid as of July 20, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky
Honorable Paul E. Patton, Governor
T. Kevin Flanery, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
Honorable L. C. Reese, Lee County Judge/Executive
Honorable James H. Pelfrey, Lee County Sheriff
Members of the Lee County Fiscal Court

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discuss the following areas of noncompliance:

- The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County

In accordance with Government Auditing Standards, we have also issued a report dated October 6, 2000, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Respectfully submitted,

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Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 6, 2000

LEE COUNTY
JAMES H. PELFRY, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES

July 20, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 202,025	\$ 146,567	\$ 371,369	\$ 146,567
Tangible Personal Property	23,461	11,200	31,088	26,676
Intangible Personal Property				7,339
Fire Protection	2,537			
Franchise Corporation	64,716	34,581	93,421	
Additional Billings	1,243	707	1,917	782
Bank Franchise	34,921			
Oil Property	5,075	3,682	9,330	3,682
Penalties	2,673	1,854	4,774	2,217
Adjusted to Sheriff's Receipt	96	72	880	72
Gross Chargeable to Sheriff	<u>\$ 336,747</u>	<u>\$ 198,663</u>	<u>\$ 512,779</u>	<u>\$ 187,335</u>
<u>Credits</u>				
Discounts	\$ 2,627	\$ 1,804	\$ 4,617	\$ 2,120
Exonerations	3,387	2,458	6,227	2,460
Delinquents:				
Real Estate	9,108	6,523	16,528	6,523
Tangible Personal Property	705	336	934	1,089
Intangible Personal Property				246
Delinquent Omitted	33	24	61	24
Uncollected Franchise	17	8	23	
Total Credits	<u>\$ 15,877</u>	<u>\$ 11,153</u>	<u>\$ 28,390</u>	<u>\$ 12,462</u>
Net Tax Yield	\$ 320,870	\$ 187,510	\$ 484,389	\$ 174,873
Less: Commissions *	<u>13,924</u>	<u>7,969</u>	<u>19,376</u>	<u>7,720</u>
Net Taxes Due	\$ 306,946	\$ 179,541	\$ 465,013	\$ 167,153
Taxes Paid	306,889	179,002	461,940	167,323
Add: Additional Penalty				206
Less: Refunds (Current and Prior Year)	<u>51</u>	<u>37</u>	<u>93</u>	<u>36</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ 6</u>	<u>\$ 502</u>	<u>\$ 2,980</u>	<u>\$ 0</u>

* and ** See Page 4

LEE COUNTY
JAMES H. PELFRY, SHERIFF
SHERIFF'S SETTLEMENT - 1999 TAXES
July 20, 2000
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	673,253
4% on	\$	484,389

** Special Taxing Districts:

Library District	\$	163
Health District		270
Extension District		60
Soil Conservation District		<u>9</u>
Due Districts or (Refunds Due Sheriff)	\$	<u><u>502</u></u>

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
JAMES H. PELFRY, SHERIFF
SHERIFF'S SETTLEMENT - 1999 UNMINED COAL TAXES

July 20, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Sheriff's Official Receipt for Unmined Coal	\$ 69	\$ 51	\$ 127	\$ 50
<u>Credits</u>				
Delinquents	\$ 69	\$ 51	\$ 127	\$ 50
Net Taxes Due	\$ 0	\$ 0	\$ 0	\$ 0
Taxes Paid	0	0	0	0
Due Districts as of Completion of Fieldwork	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

The accompanying notes are an integral part of the financial statements.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS

July 20, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits:

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. The depository institution has pledged or provided sufficient collateral, and the depository institution's board of directors or loan committee approved the pledge or provision. However, the depository institution did not have a written agreement with the Sheriff securing the Sheriff's interest in the collateral.

LEE COUNTY
NOTES TO THE FINANCIAL STATEMENTS
July 20, 2000
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 1999 through June 6, 2000.

Unmined Coal Taxes

The tangible property tax assessments were levied as of January 1, 1999. Property taxes are billed to finance governmental services. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 30, 1999 through June 6, 2000.

Note 4. Interest Income

The Lee County Sheriff earned \$2,301 as interest income on 1999 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$546 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

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COMMENTS AND RECOMMENDATIONS

LEE COUNTY
JAMES H. PELFRY, SHERIFF
COMMENTS AND RECOMMENDATIONS

July 20, 2000

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. As of November 9, 1999, the Sheriff had bank deposits of \$567,059; FDIC insurance of \$100,000; and collateral pledged or provided of \$500,000. Even though the Sheriff obtained sufficient collateral of \$500,000, there was no written agreement between the Sheriff and the depository institution, signed by both parties, securing the Sheriff's interest in the collateral. We recommend the Sheriff enter into a written agreement with the depository institution to secure the Sheriff's interest in the collateral pledged or provided by the depository institution. According to federal law, 12 U.S.C.A. § 1823(e), this agreement, in order to be recognized as valid by the FDIC, should be (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

2. The Sheriff Should Have Published The Sheriff's Annual Settlement With The County

The Sheriff did not publish his annual settlement with the fiscal court. KRS 134.310 requires the settlement be published pursuant to KRS Chapter 424. The report of the settlement shall be subject to objections by the sheriff or by the county attorney, who shall represent the state and county, and the county judge/executive shall determine objections. Objections shall be submitted to the county judge/executive within (15) days of the filing of the settlement in the Clerk's office. If no objections are submitted, the settlement will become final.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

None.

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

- The Sheriff Should Have A Written Agreement To Protect Deposits
- The Sheriff Should Have Published The Sheriff's Annual Settlement With County

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
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Members of the Lee County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the Lee County Sheriff's Settlement - 1999 Taxes and Sheriff's Settlement - 1999 Unmined Coal Taxes as of July 20, 2000, and have issued our report thereon dated October 6, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Lee County Sheriff's Settlement - 1999 Taxes and Sheriff's Settlement - 1999 Unmined Coal Taxes as of July 20, 2000 are free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance that are required to be reported under Government Auditing Standards which are described in the accompanying comments and recommendations.

- The Sheriff Should Have Entered Into A Written Agreement To Protect Deposits
- The Sheriff Should Have Published The Sheriff's Annual Settlement With The County

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Lee County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett", with a horizontal line extending from the end of the signature.

Edward. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
October 6, 2000

